COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4367-06
Bill No.: Perfected HCS for HB 1886
Subject: Economic Development; Cities, Towns and Villages.
Type: Original
Date: April 29, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue *	($154,348 to Unknown)	($105,135 to Unknown)	($108,336 to Unknown)
Total Estimated Net Effect on All State Funds *	**($154,348 to Unknown)**	**($105,135 to Unknown)**	**($108,336 to Unknown)**

* Some of the costs incurred by the state may be reimbursed from participating municipalities

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** did not respond to our request for fiscal impact regarding the perfected version of this proposal. However, in response to an earlier version of this proposal, DED stated this bill enacts the Missouri Downtown Economic Stimulus Act. Certain taxes deemed new increment would be diverted to pay for the development of the area (or noncontiguous areas). PILOTS, EATS, and "other net new revenues," which purport to be incremental state sales tax revenues and incremental state income taxes attributable to new hires. To be eligible for the state revenue portion, an application is made to the Missouri Development Finance Board (MDFB). If approved, state revenue that is "other net new revenues" would be paid to a special fund in the city rather than to the state.

DED stated this bill would include more state revenues than State TIF currently does. State TIF allows up to half of one or the other type of state increment to go to a project. MODESA dedicates 100% of both types of state increment. Of importance to determining fiscal impact is that the incremental state income tax for "new jobs" is based upon new hires in the area after approval of the development plan. This does not ensure that the new jobs are new to the state and therefore there is a potential for a loss of revenue that the state currently receives.

DED assumed the need for the assistance of contract labor to review information received and produce the two reports required. DED also assumed contract labor help to develop the manual required by 99.984 RSMo and assumes that annual updates would be required. DED assumed contract costs for performing the cost benefit analysis required by 99.948 RSMo. DED assumed there will be some unknown costs to comply with 99.969 that requires General Revenue to pay for DED costs to provide assistance with this section. Cost would be unknown.

DED also assumed there would be an unknown impact on state tax revenue collections. This proposal may actually result in a net loss of revenue to the state due to the fact that it does not require that the state income tax diverted be for new jobs to the state but only for new hires to a business in the development area after the approval of the development plan.

The MDFB anticipates the need of one professional FTE (at $50,000) to accomplish tasks imposed plus associated expenses. The MDFB would recover these costs as development finance costs from the proceeds received by the authority from the municipality or the state. Therefore, these costs are stated as local costs. All costs for DED and MDFB are estimates and are subject to adjustment.

Oversight assumes the costs incurred by DED would be paid from the General Revenue fund.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state this legislation will have no administrative impact in their Business Tax Division. DOR states that implementation of the sections pertaining to withholding tax can not be done. Currently DOR does not know how much income tax is withheld on each employee since businesses only report total income tax withheld. Also, businesses that have more than one location only file one withholding tax return and report income tax withheld for both locations on one return.

DOR assumes their Personal Tax Division will need one Tax Processing Tech. I for every 10,000 credits claimed and one Tax Processing Tech. I for every 3,000 additional pieces of correspondence. DOR estimates the costs of the two FTE to be roughly $63,000 per year.

DOR also assumes that they will need to make programming changes to MINITS to recognize the new credit. DOR estimates that the changes will require 1,384 hours of programming at a total cost of $46,170. State Data Center costs to implement the legislation are estimated to be $9,007.

Oversight assumes DOR could absorb some additional tax credits generated from this legislation (and therefore have not reflected their request for additional FTE), but may need to request additional FTE in future fiscal years to handle additional tax credits if the program is successful.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this substitute has the various provisions:

Section 99.915.2 removes the eligibility of sports stadiums in the Missouri Downtown Economic Stimulus Act. This prevents stadiums from claiming tax benefits available to other businesses that participate in this program.

Section 99.936.1(11) allows the Department of Economic Development, the Office of Administration and the Department of Revenue to recover costs from the municipality fund for evaluation, administration and implementation of development plans. BAP assumes this will increase Total State Revenues.

Section 99.945.14 changes the definition of major initiative removing stadiums from being considered under major initiatives and lowering the project costs and jobs created for municipalities under 100,000 to a cost of $1,000,000 and 10 jobs. BAP states this could potentially increase the number of municipalities involved under the act further decreasing state revenue. It is unknown the additional number of municipalities which would participate under this change.

<u>ASSUMPTION</u> (continued)

Section 99.945.18 changes the definition of other state revenues. The change allows all employers in a development project area to be subject to the 2% withholding taxes to be kept by the municipality. BAP states this will further decrease total state revenue by an unknown

amount. BAP states they have no way of estimating the number of jobs that would qualify under this language.

Section 99.969.6 gives a sales tax offset to municipalities for local development in amounts ranging from $10 million to $40 million, per municipality. It is unknown how many municipalities would participate in the program. As an example of the magnitude of the potential impact - if the 50 largest cities and the 15 largest counties in the state each had one project under this section, then $850 million in tax revenue would not be collected by the state each year. The definition of "municipality" in Section 99.945 of the bill includes all cities, villages, townships and counties.

Section 99.969.7(1) gives a 100% sales tax credit to any new or existing business in a development project area. In FY 2003, it is estimated that $919.4 million in local sales tax revenue will be generated. It is unknown how much in local sales taxes would be generated in these zones that employers could then take as a credit against their state tax liability.

Section 99.969.7(2) gives all employees of an approved development project area an entitlement to receive a 100% tax credit of the 2% of withholding taxes that are diverted to the municipality against their state income tax liability. The amount of credits that could be claimed against this section are unknown. BAP states they have no way of estimating the number of jobs that would qualify under this language.

Officials from the **City of Springfield** assume this proposal would not fiscally impact their city.

In response to a similar version of this proposal, officials from the **Kansas City** stated that capturing a portion of the additional increment of state income and sales tax revenues generated by new downtown developments would allow the city to leverage a larger revenue stream needed to address the extensive land acquisition, clearance and infrastructure needs associated with economic redevelopments in downtown Kansas City.

In response to a similar version of this proposal, officials from the **City of St. Louis (STL)** stated this legislation allows for new real estate taxes and economic activity taxes to be shifted from general revenue to the special allocation fund for economic development purposes within the plan area. How much and when will only be determined when the geography and timing is finalized by ordinance. The powers granted the authority are similar if not identical to the powers of the LCRA and TIF Commission. These powers are combined into a single entity, the Downtown Economic Stimulus

authority.

STL states the bill allows for an easier program based approach to the State of Missouri for direct financial assistance for approved development within the plan area.

STL states that if the authority is a stand-alone entity separate from SLDC, there could be costs of administration (salaries, consultants, legal fees, etc.). If the authority is established within SLDC, there is no duplication of effort and existing SLDC staff could function as staff support for the Authority.

Officials from **Greene County**, **St. Louis County**, **City of St. Joseph**, and the **City of Cape Girardeau** did not respond to our request for fiscal impact.

Oversight assumes the loss of revenue for the state is $0 to unknown, since the proposal is permissive to any Missouri municipality and the Downtown Economic Stimulus Authority may designate various portions of the city as development areas, as long as they meet the specified requirements.

Oversight has reflected the fiscal impact to local governments as $0, since this proposal is permissive and does not require municipalities to enact their Downtown Economic Stimulus Authority. Oversight notes that some of the expenses incurred by the Department of Revenue and the Department of Economic Development may be reimbursable from the municipality fund and has indicated such expenses with an "*".

This proposal could impact Total State Revenues.

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
Loss - loss of sales tax revenue	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - loss of income tax revenue	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Costs - DED *			
Contract labor charges	($25,000)	($13,800)	($14,609)
Costs - MDFB *			
Personal Service (1 FTE)	($41,667)	($51,250)	($52,531)
Fringe Benefits	($15,004)	($18,455)	($18,916)
Expense and Equipment	($17,500)	($21,630)	($22,280)
Total Costs - MDFB	($74,171)	($91,335)	($93,727)

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
Costs - Department of Revenue *			
Programming charges	($55,177)	$0	$0
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($154,348 to Unknown)**	**($105,135 to Unknown)**	**($108,336 to Unknown)**

**** Some of the costs incurred by the state may be reimbursed from participating municipalities***

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would impact small businesses that are within a designated development areas as defined by the municipality's Downtown Economic Stimulus Authority.

DESCRIPTION

This proposal:

(1) Creates in each municipality a "Downtown Economic Stimulus Authority," with certain provisions, which will constitute a public body corporate and politic;

(2) Restricts the authority from funding the construction, maintenance, or operation of any sports stadium or related facility;

DESCRIPTION (continued)

(3) Requires each authority to be governed by a board of commissioners with five to 13 members. At least one of the commissioners will be a member of a local community development corporation, at least one other will be a minority business owner and at least one member shall be appointed by the school boards whose districts are included within the development plan or development area. In addition to these commissioners, two advisory members will be appointed by the school boards whose districts are included within the development area, and one additional advisory member will be appointed to represent all other districts levying ad valorem taxes or sales taxes within the development area. All remaining

commissioners will be appointed by the mayor for terms of one to three years;

(4) States the powers of the authority;

(5) Requires each municipality to establish a minority business plan to ensure that minority-owned businesses are provided good faith opportunities to participate in the procurement of goods and services within the development project areas;

(6) Outlines methods by which real property can be disposed of;

(7) Outlines the required process for reviewing and accepting developer proposals;

(8) Explains what the authority may do to carry out a development project, including how to transfer real property;

(9) Outlines the requirements of a development plan, what is required of a municipality before it can adopt the development plan, and the manner in which the plan must be reviewed;

(10) Requires that hearing notices be published in a general circulation newspaper in addition to two minority newspapers, one of which must be published in Spanish;

(11) Allows the authority, municipality, or state to issue bonds to finance the development project;

(12) Allows the municipality to collect new taxes within development areas for development projects, if approved by the voters of the municipality;

(13) Explains the manner in which ad valorem taxes and payments in lieu of taxes will be divided among the affected taxing districts;

(14) Explains the manner in which other net new revenues will be paid to the municipality;

<u>DESCRIPTION</u> (continued)

(15) Requires the municipality to deposit other net new revenues in a separate account within the special allocation fund and explains when the municipality is required to remit excess funds to the Department of Revenue;

(16) Explains when particular affected taxpayers are entitled to receive tax credits;

(17) Requires each municipality to submit an annual report to the Department of Revenue regarding development;

(18) Allows payments in lieu of taxes, economic activity taxes, and other net new revenue to be apportioned or diverted pursuant to the Real Property Tax Increment Allocation Redevelopment Act
if all or a part of the development project area becomes subject to tax increment financing; and

(19) Requires the authority and the municipality to submit an annual report concerning development to the Director of the Department of Economic Development.

(20) Allows Kansas City, St. Louis County and St. Louis City to establish a Community Development Corporation Revolving Fund to be administered by community development corporation revolving fund boards, which are described in the proposal. Beginning January 1, 2003, up to 5 percent of the new state revenues described in the proposal may be available for appropriation by the general assembly to the department of economic development supplemental tax increment financing fund, from the general revenue fund, for distribution to the community development corporation revolving fund, but shall not exceed $1,500,000 annually.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration - Budget and Planning
City of Kansas City
City of Springfield
City of St. Louis

NOT RESPONDING: Greene County, St. Louis County, Cape Girardeau, St. Joseph

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